

Washington State Economic Update and Trends

Presented to
Commercial Real Estate Women (CREW)

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March 13, 2014
Seattle, Washington



**WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL**



Review of the next 20 minutes

- The U.S. economy – things are looking up, slightly
- The Washington economy – things are looking up, cautiously
- State revenues – they're coming in the door. Our forecast is back where we like it, we're fine tuning not in free fall
- The future of construction is promising, but sluggish in the return to those pre-recession levels
- Overall, we see slow steady growth

United States

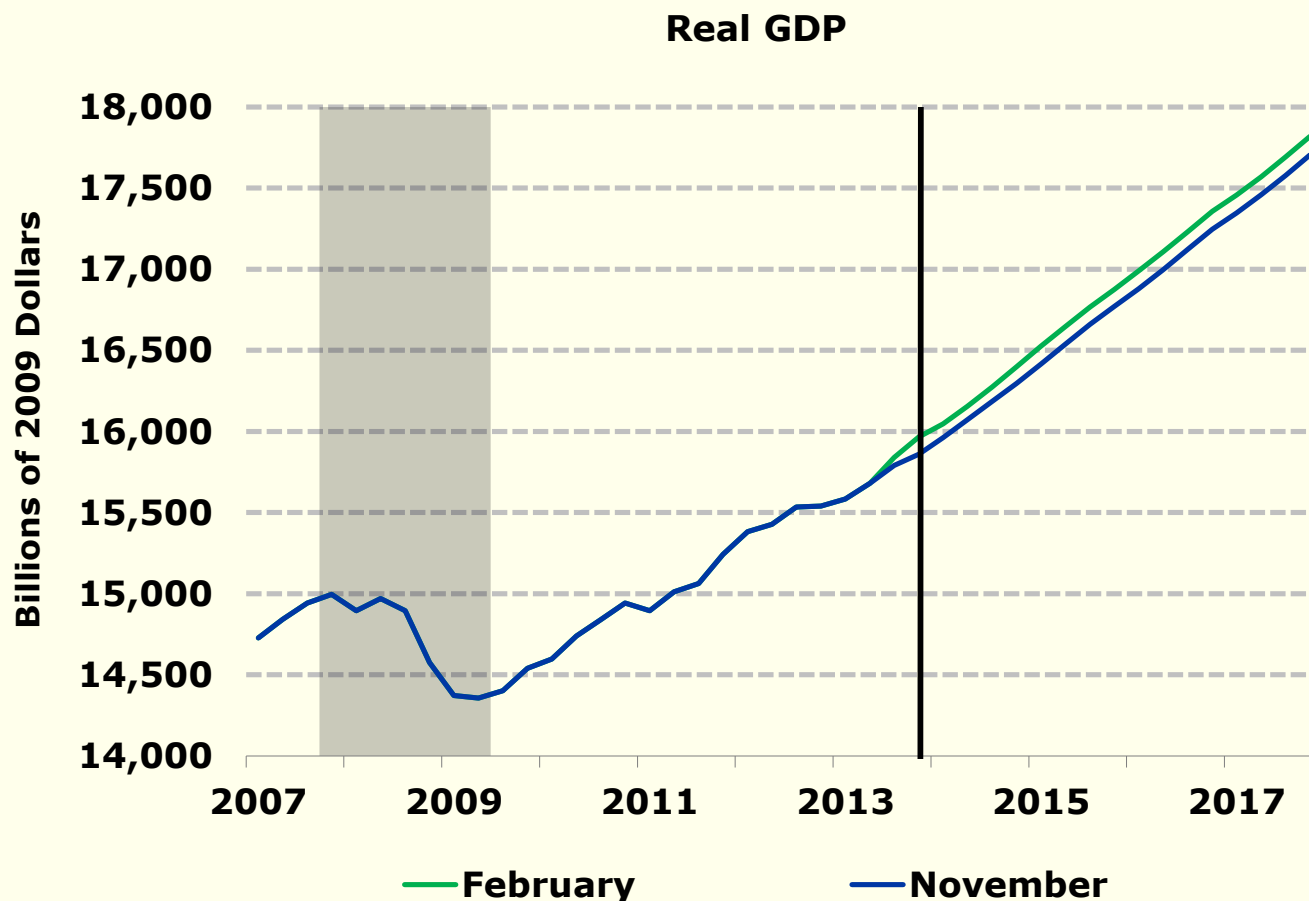


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The Blue Chip forecast for GDP is up slightly from November

Real GDP growth is slightly higher through 2015

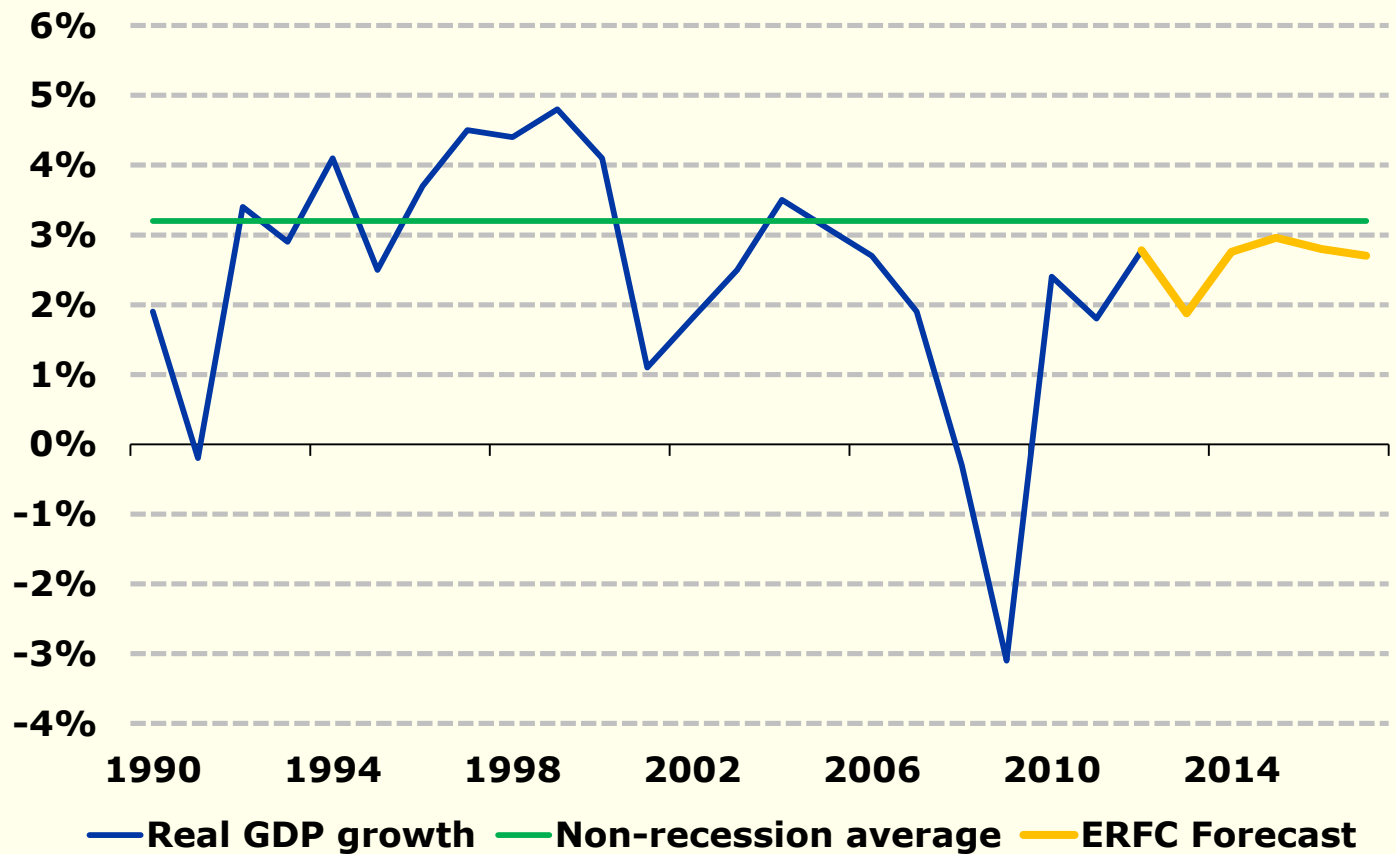


Source: Global Insight, ERFC February 2014 forecast; historical data through 2013Q4



GDP growth forecasted to be near non-recessionary average in 2015

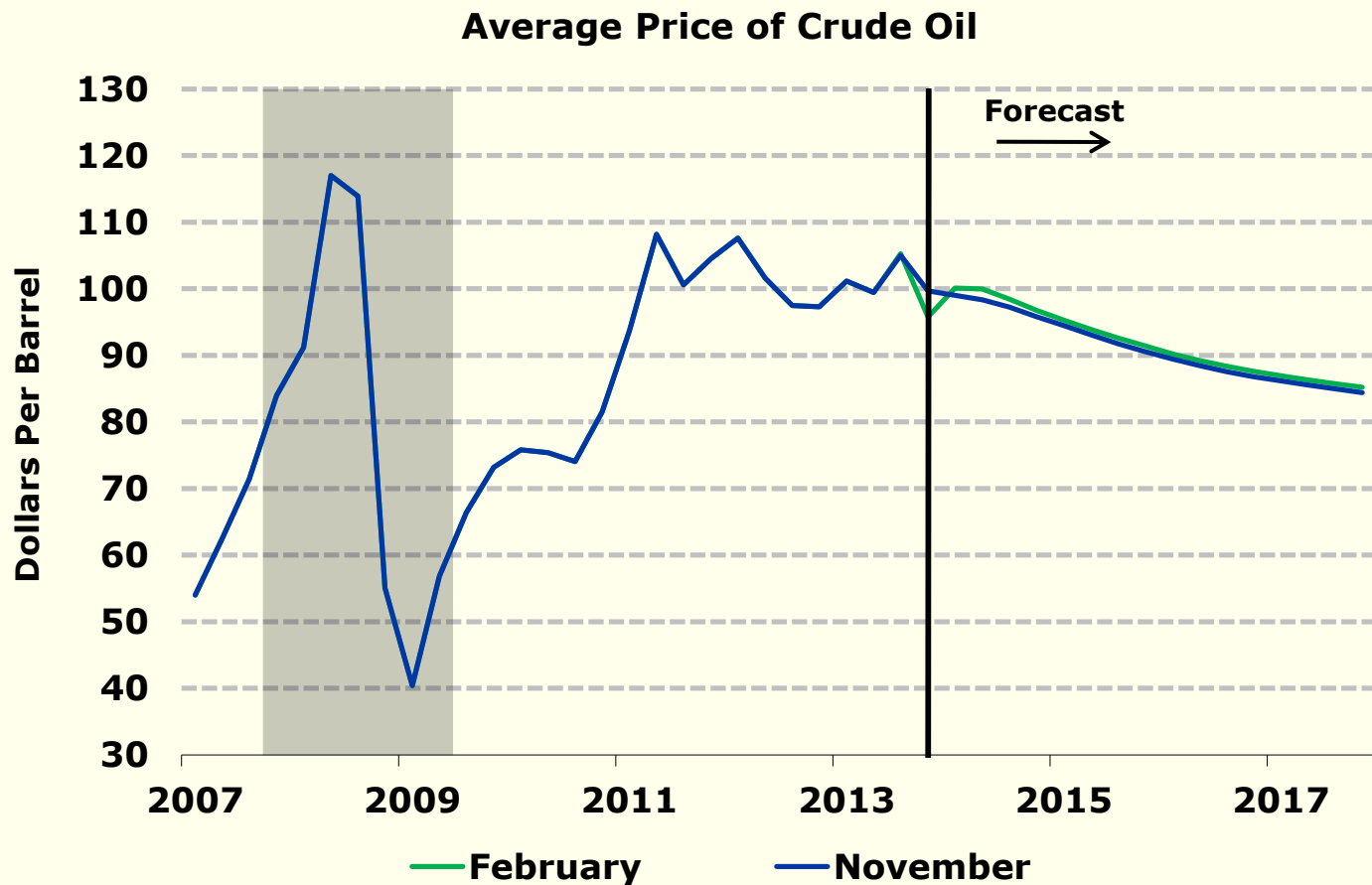
Non-recessionary average growth of 3.2% excludes 1990, 1991, 2001, 2007-2009



Source: U.S. Dept of Commerce, BEA, ERFC February 2014 Preliminary Forecast



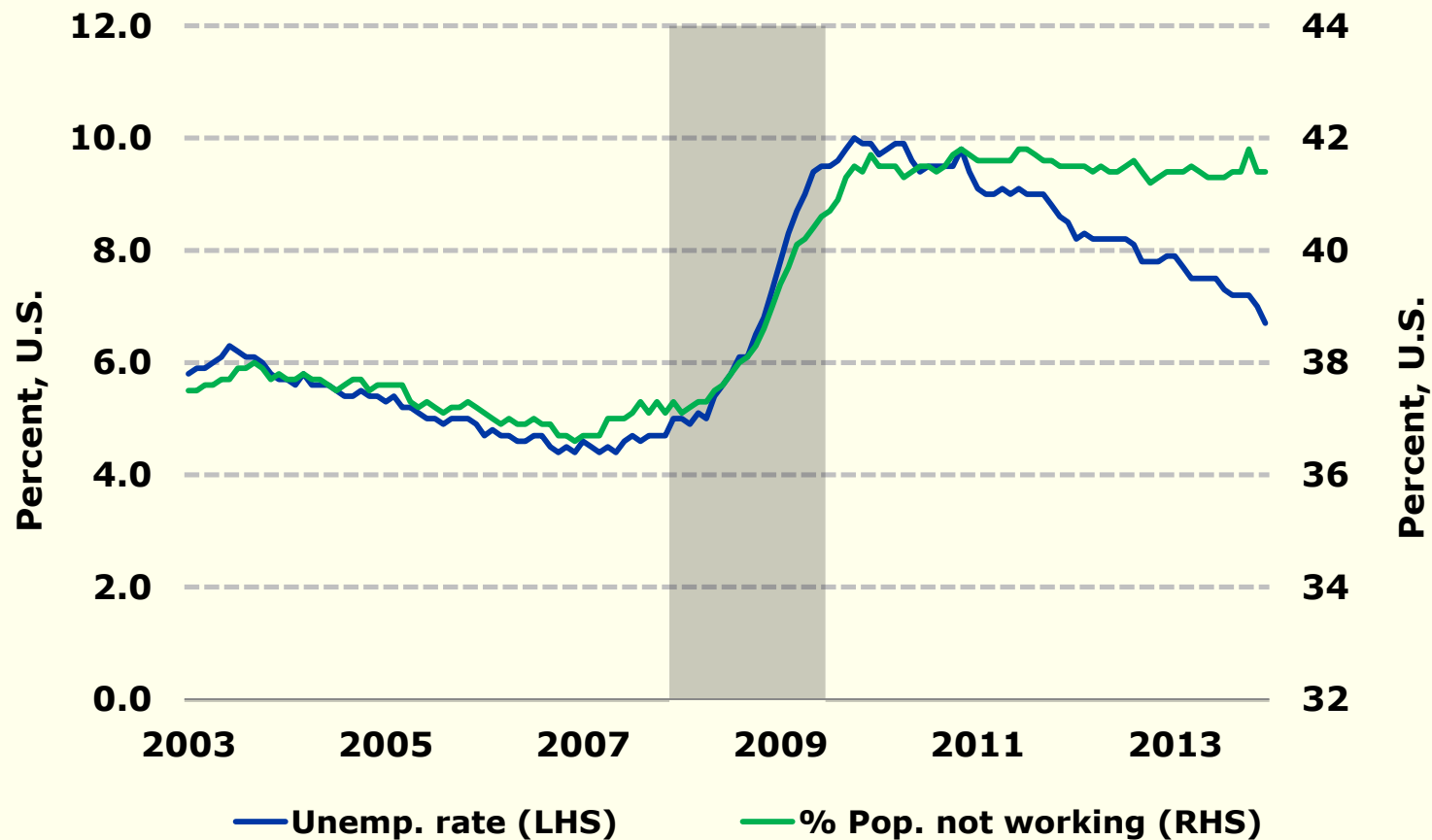
Oil prices are essentially unchanged



Source: DOE, ERFEC February 2014 forecast; historical data through 2013Q4



Although the unemployment rate is falling, share of the population not working remains stable



Source: Bureau of Labor Statistics; data through December 2013

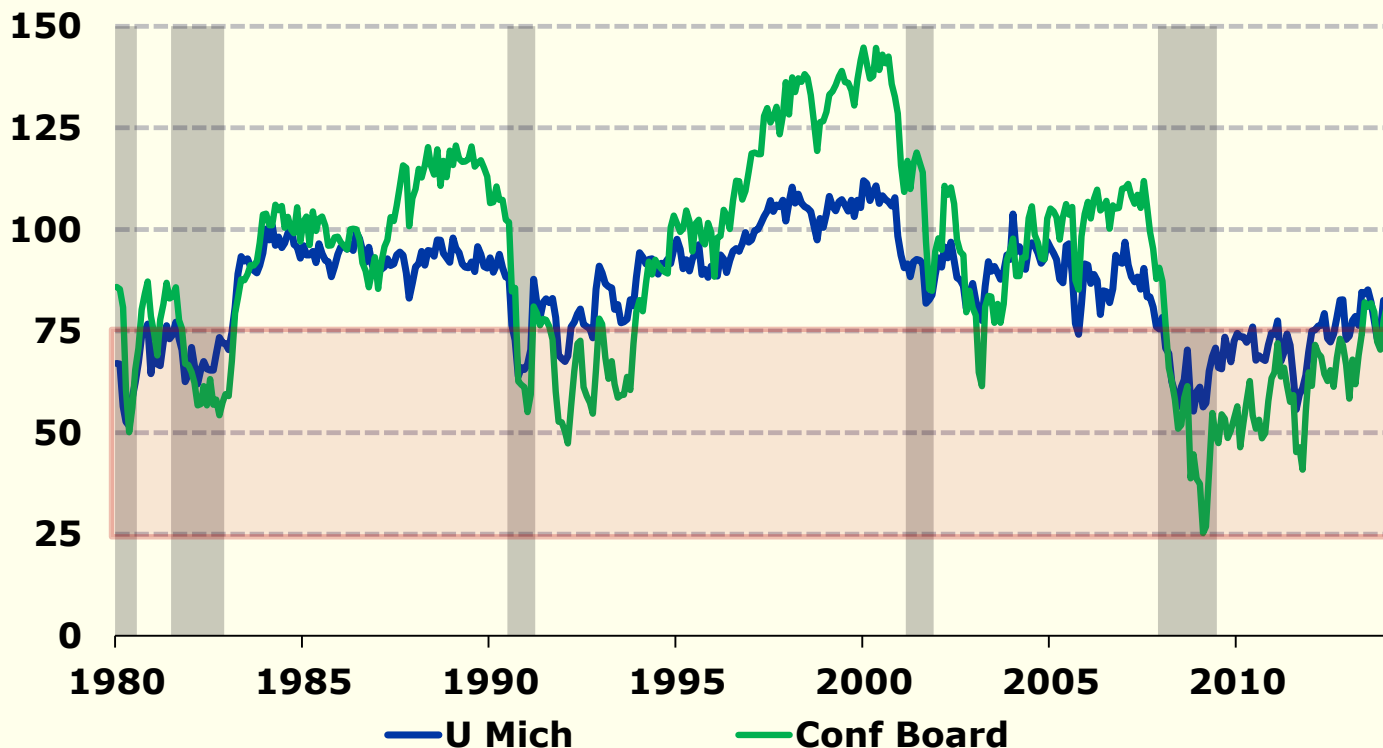


Consumer confidence has improved slightly over last three months

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Mich: 1966Q1 = 100, SA

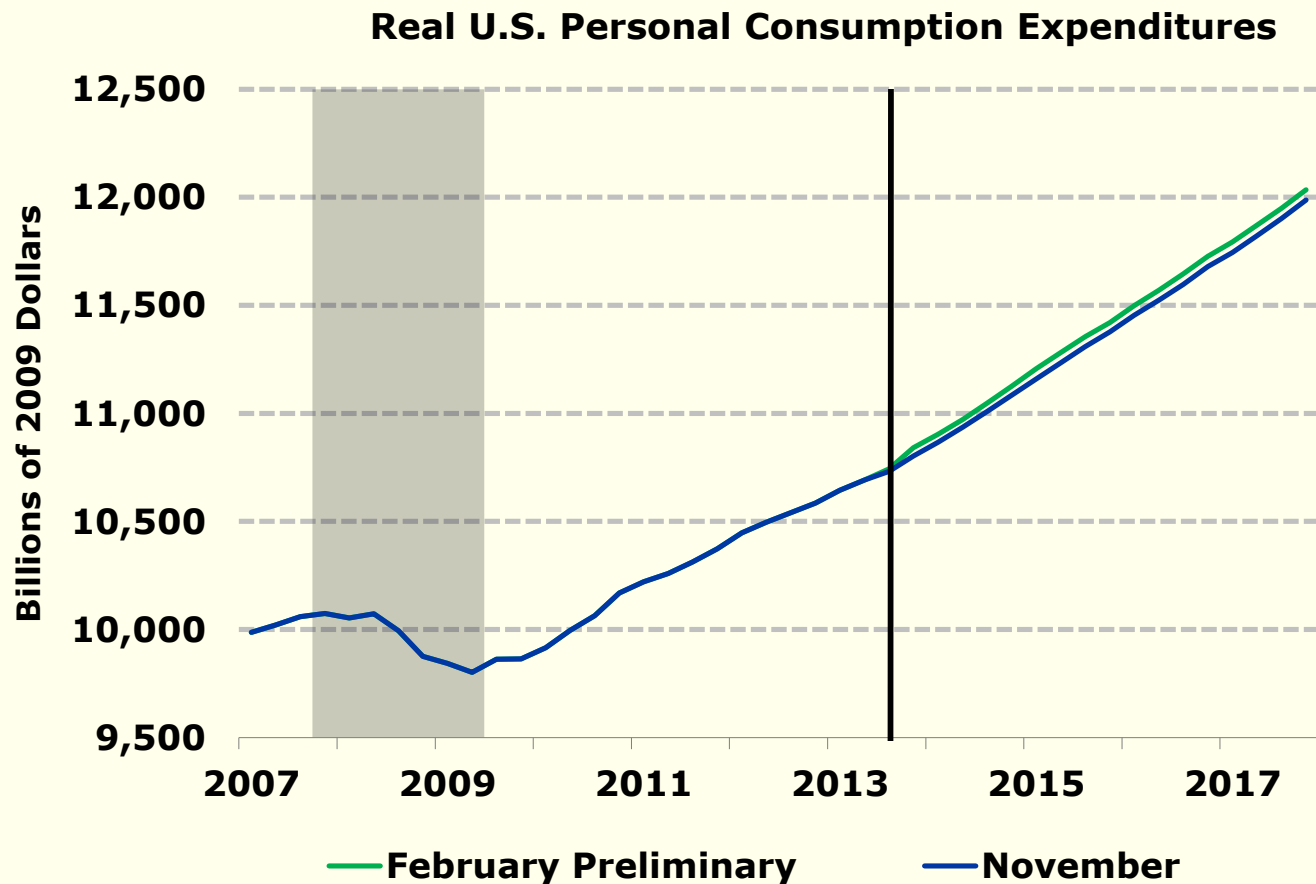
Conf Board: 1985 = 100, SA



Source: University of Michigan; Conference Board, data through February 2014



National consumer spending is slightly higher

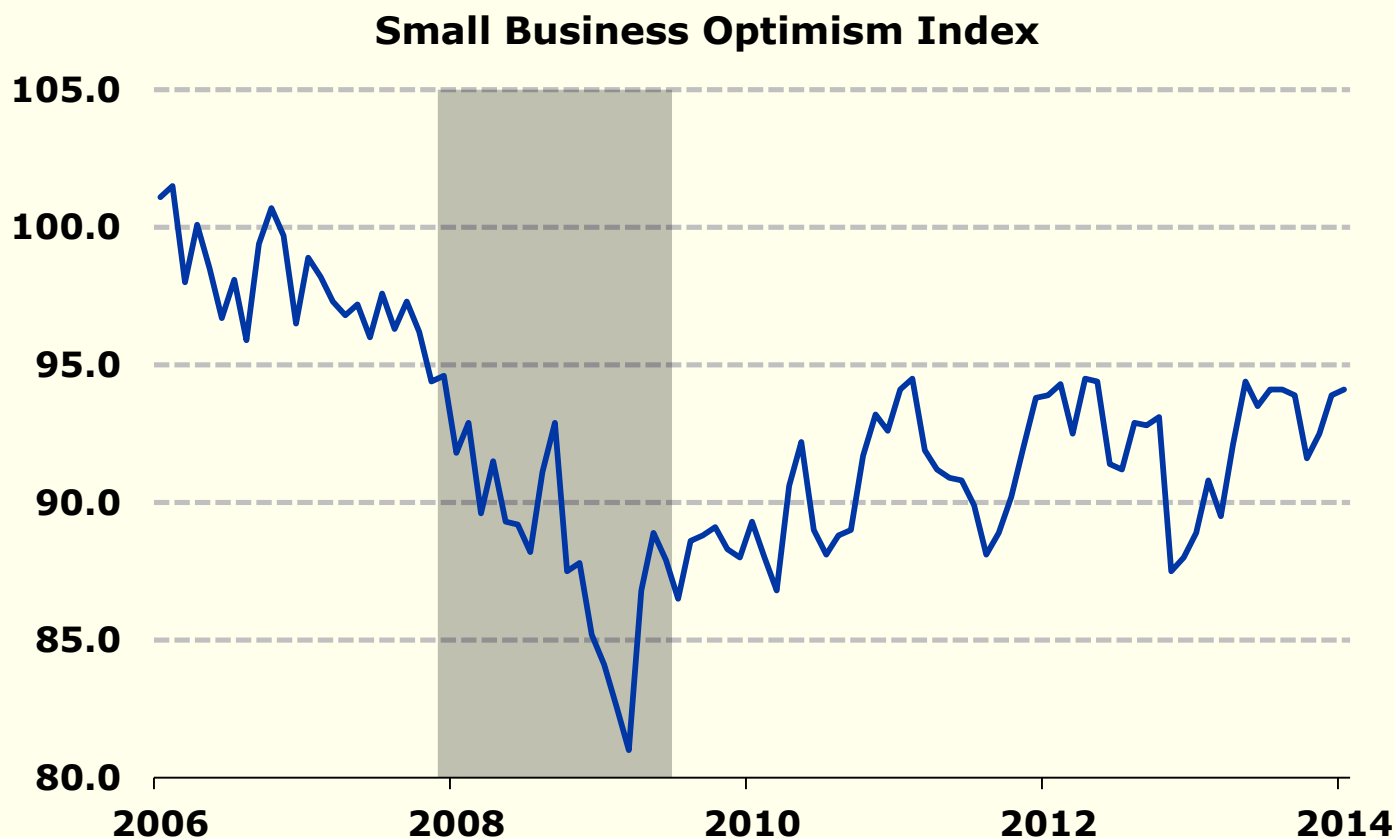


Source: Global Insight, ERFC February 2014 Preliminary forecast; historical data through 2013Q3

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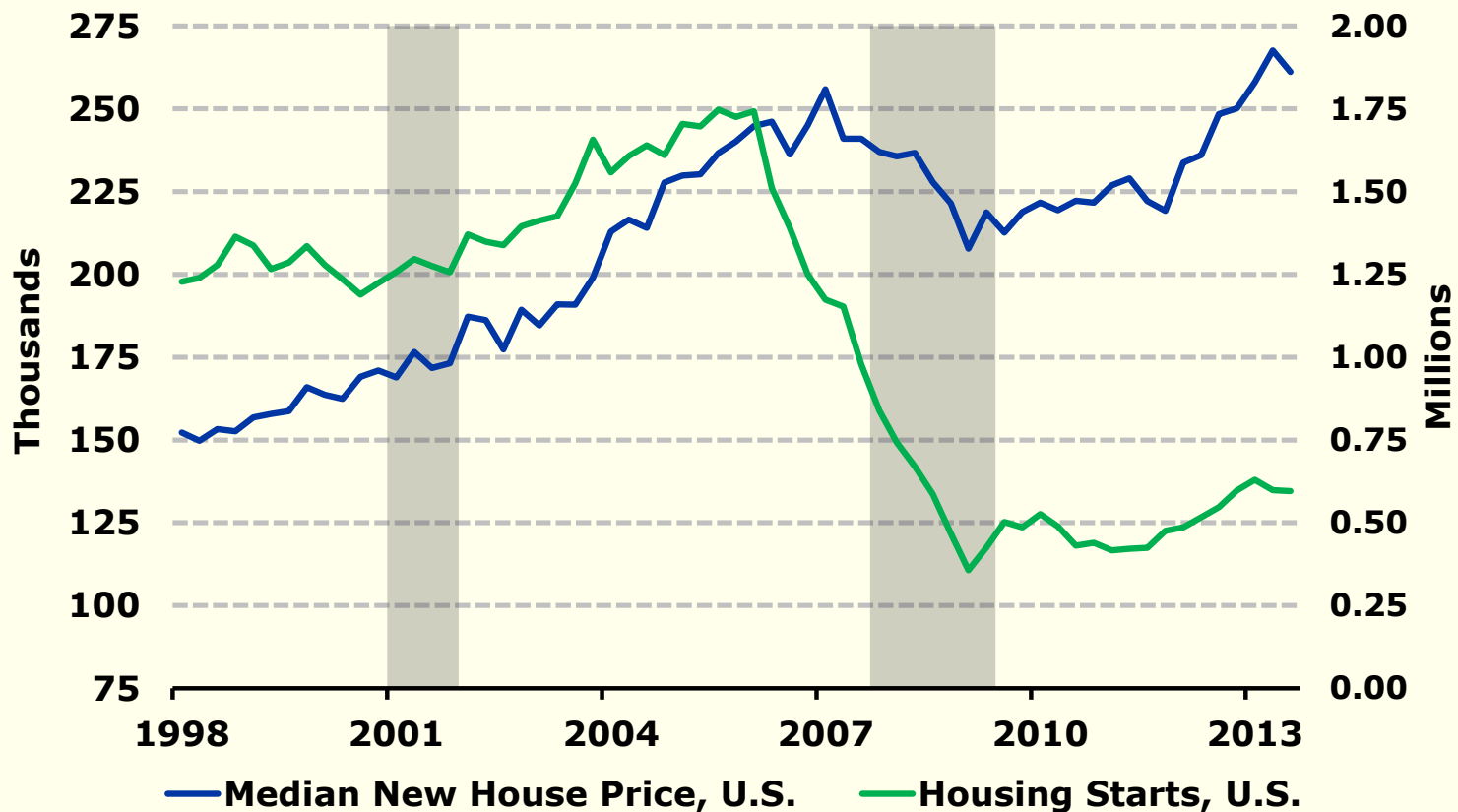


Small business outlook up slightly in last three months





New home prices are at record highs but construction remains weak



Source: U.S. Census Bureau; data through 2013Q3

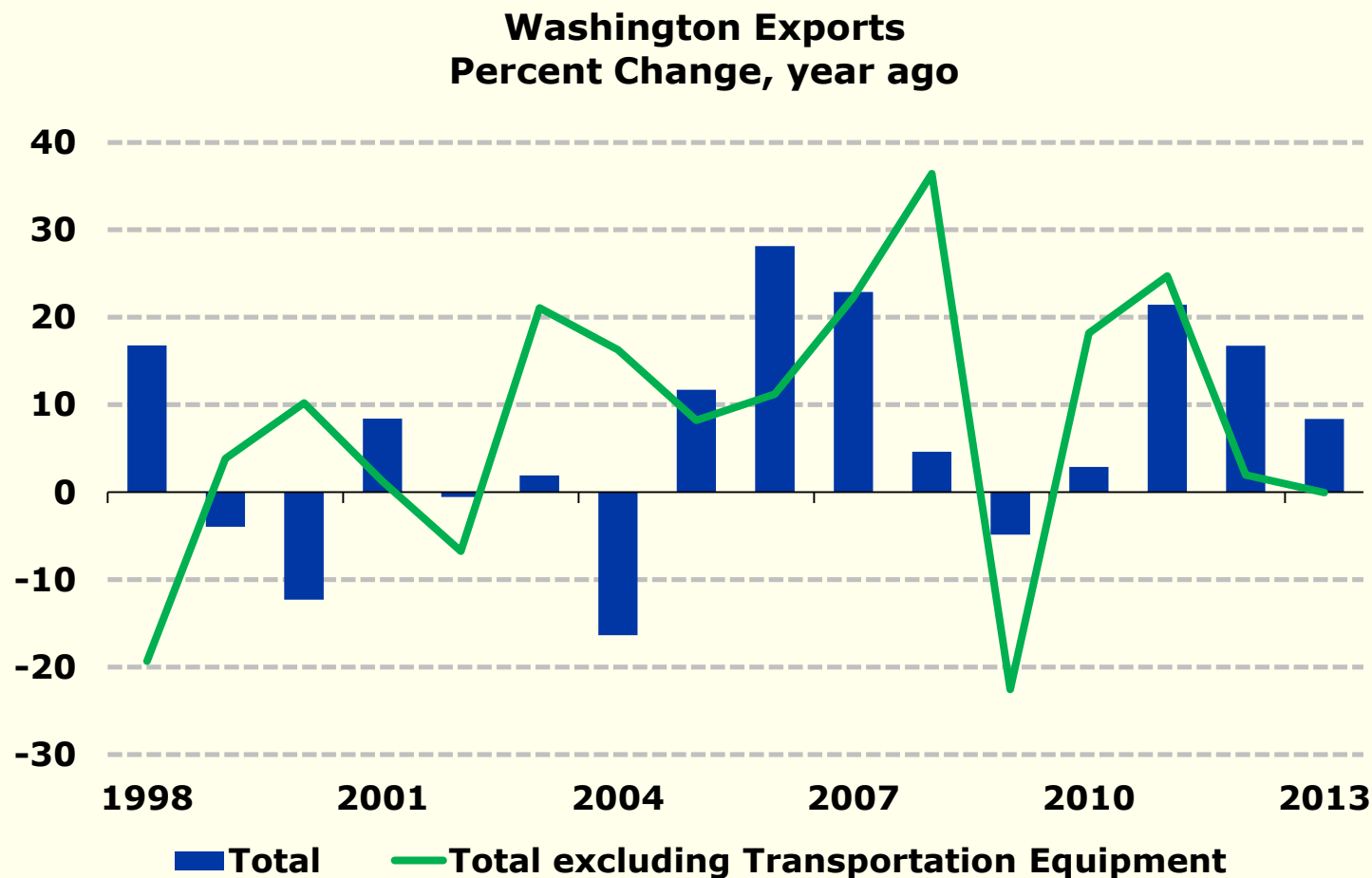
Washington



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Washington export growth was weak in 2013



Source: WISER Trade Data; data through 2013

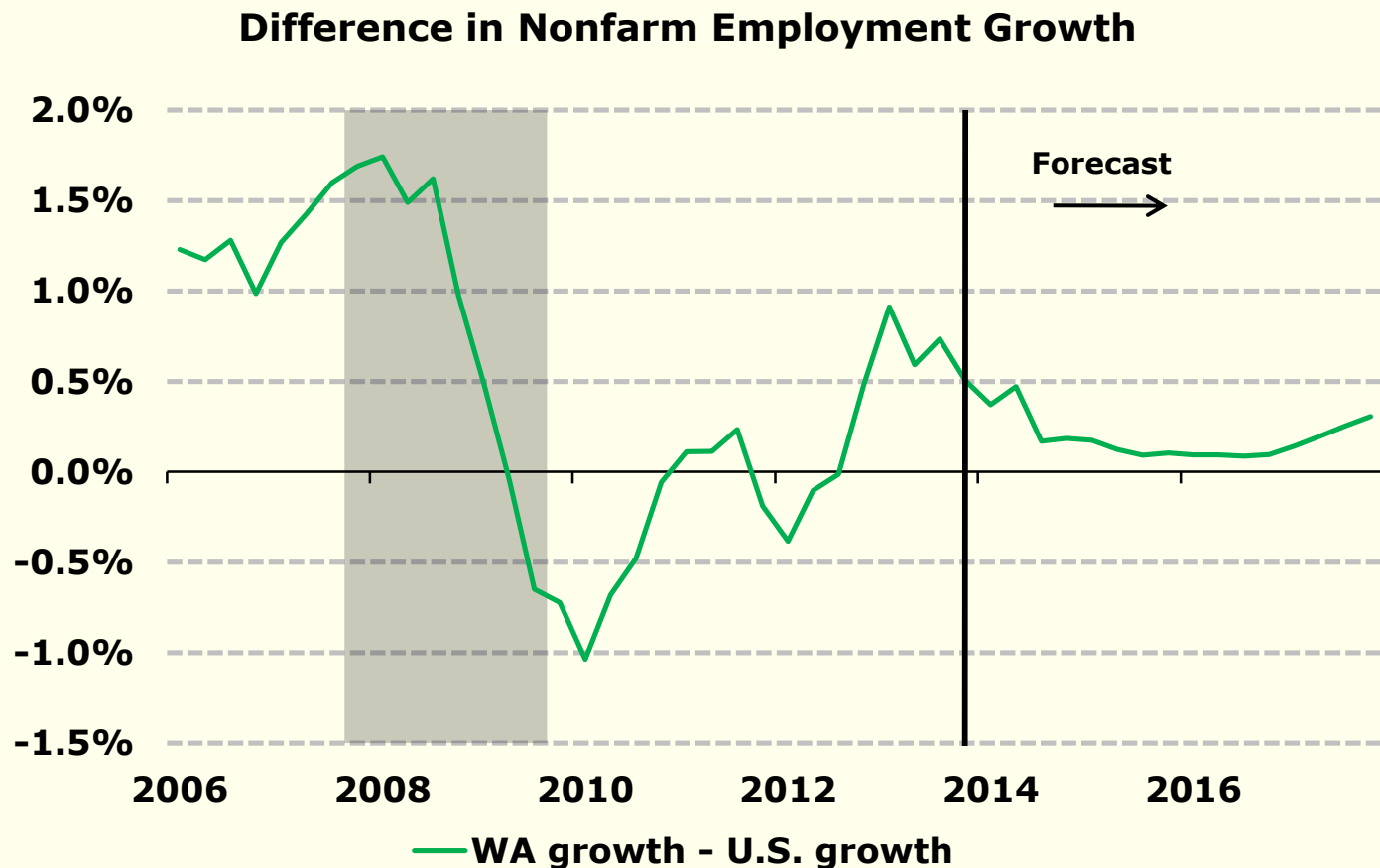


Washington employment will grow slightly faster than the U.S.

Date of
regaining
peak:

WA:
2014Q2

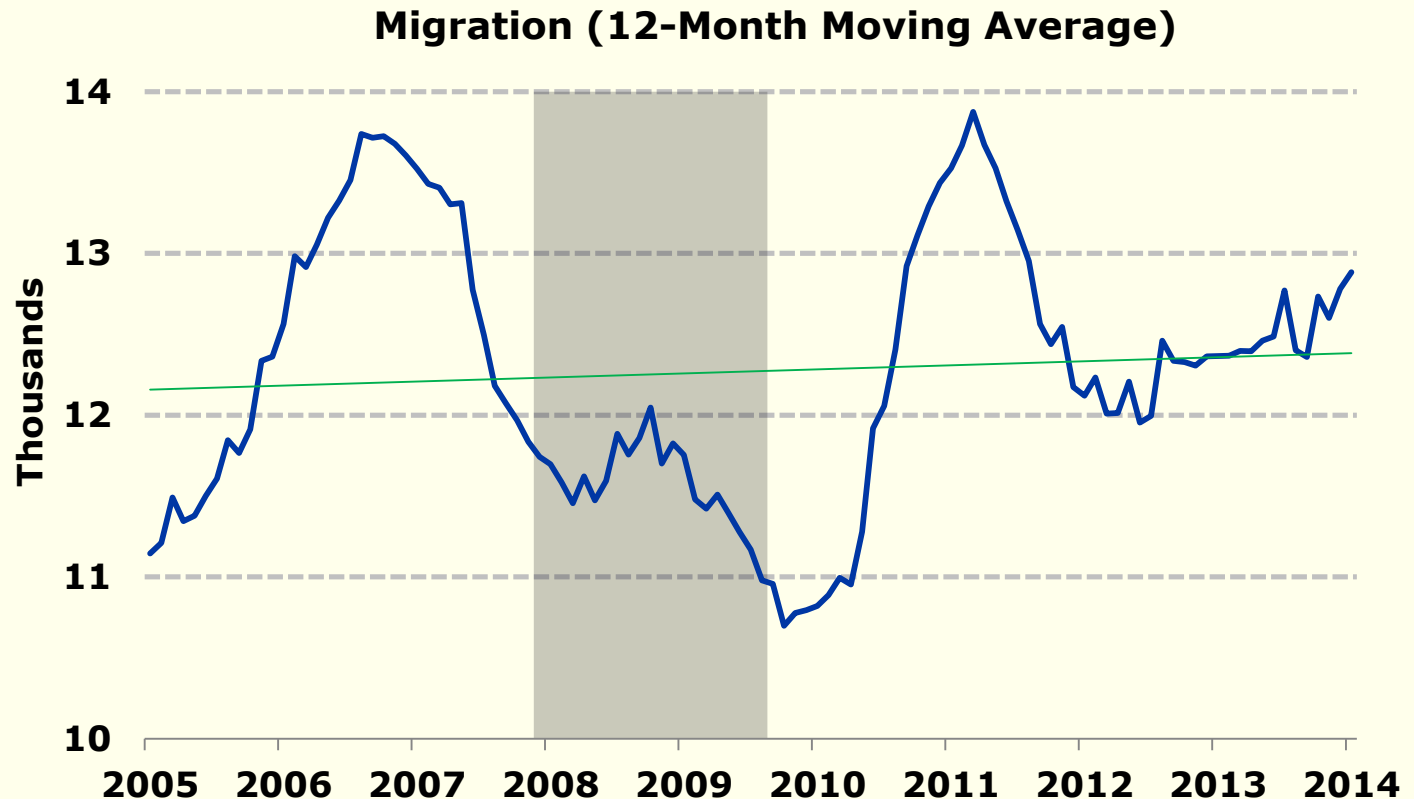
U.S.:
2014Q3



Source: ERFC February 2014 forecast; historical data through 2013Q4

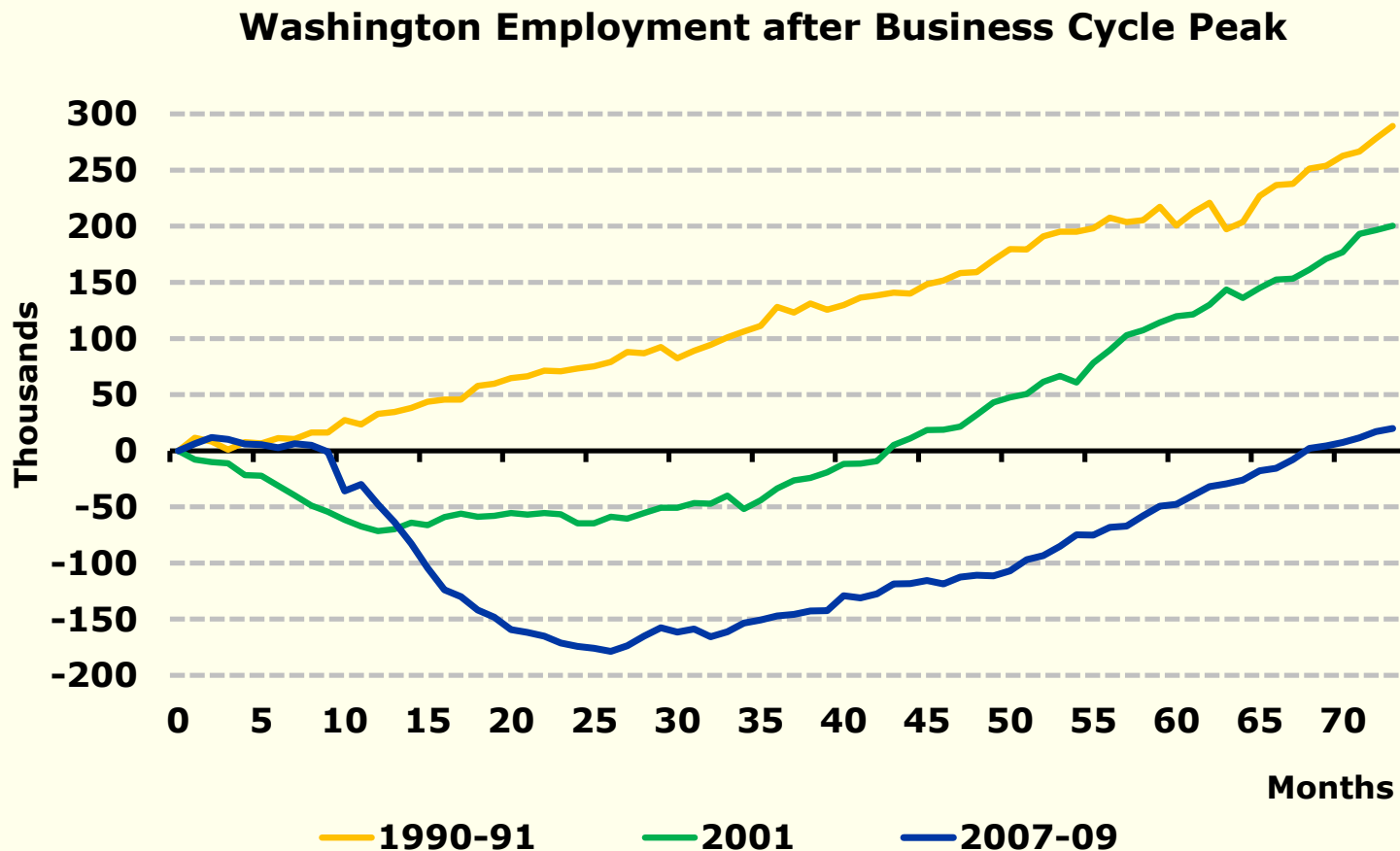


Driver's license data has picked up over the past year





After nearly 6 years, Washington employment has finally recovered

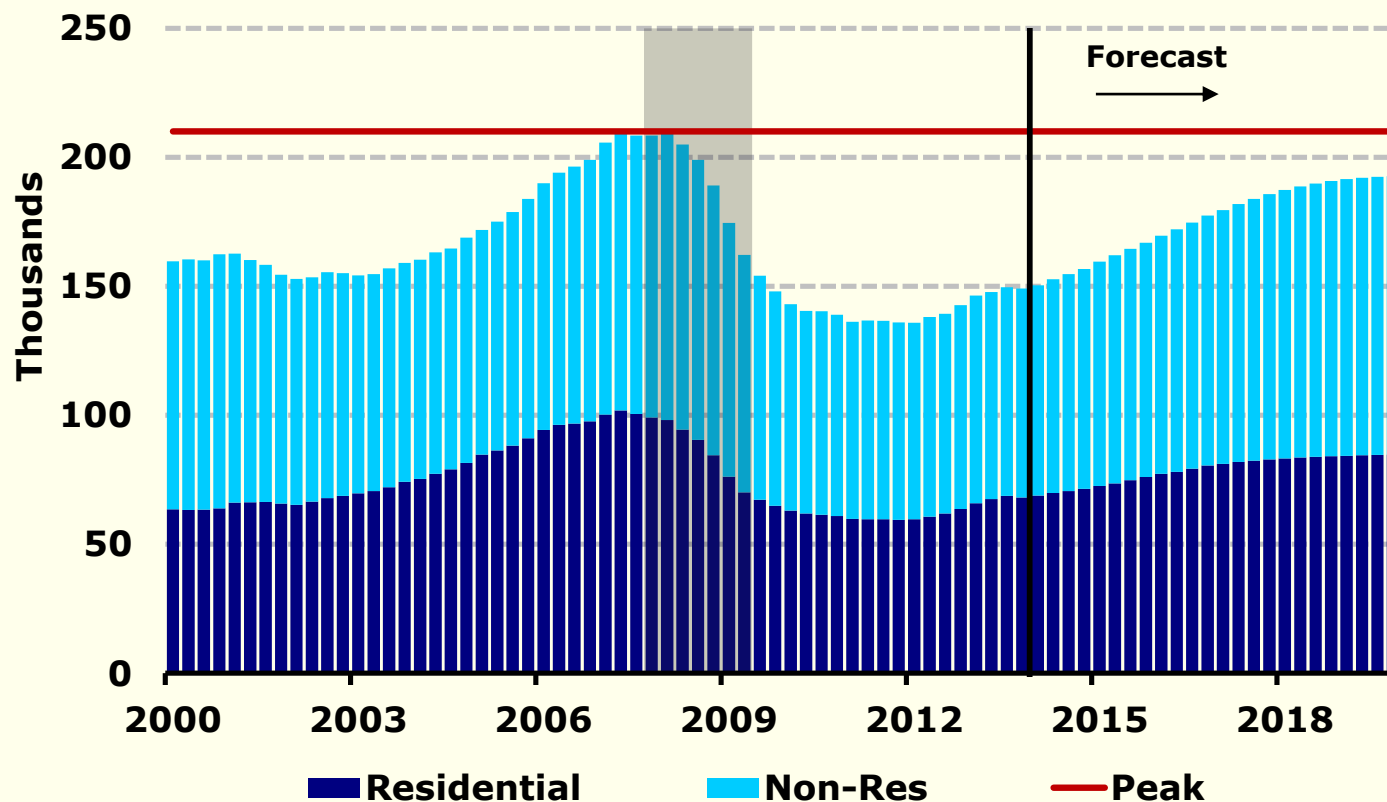


Source: WA ESD, ERFC; data through January 2014



Washington construction employment has not reached pre-recession peak

Construction employment is forecasted to still be 4,700 below its previous peak at the end of 2019

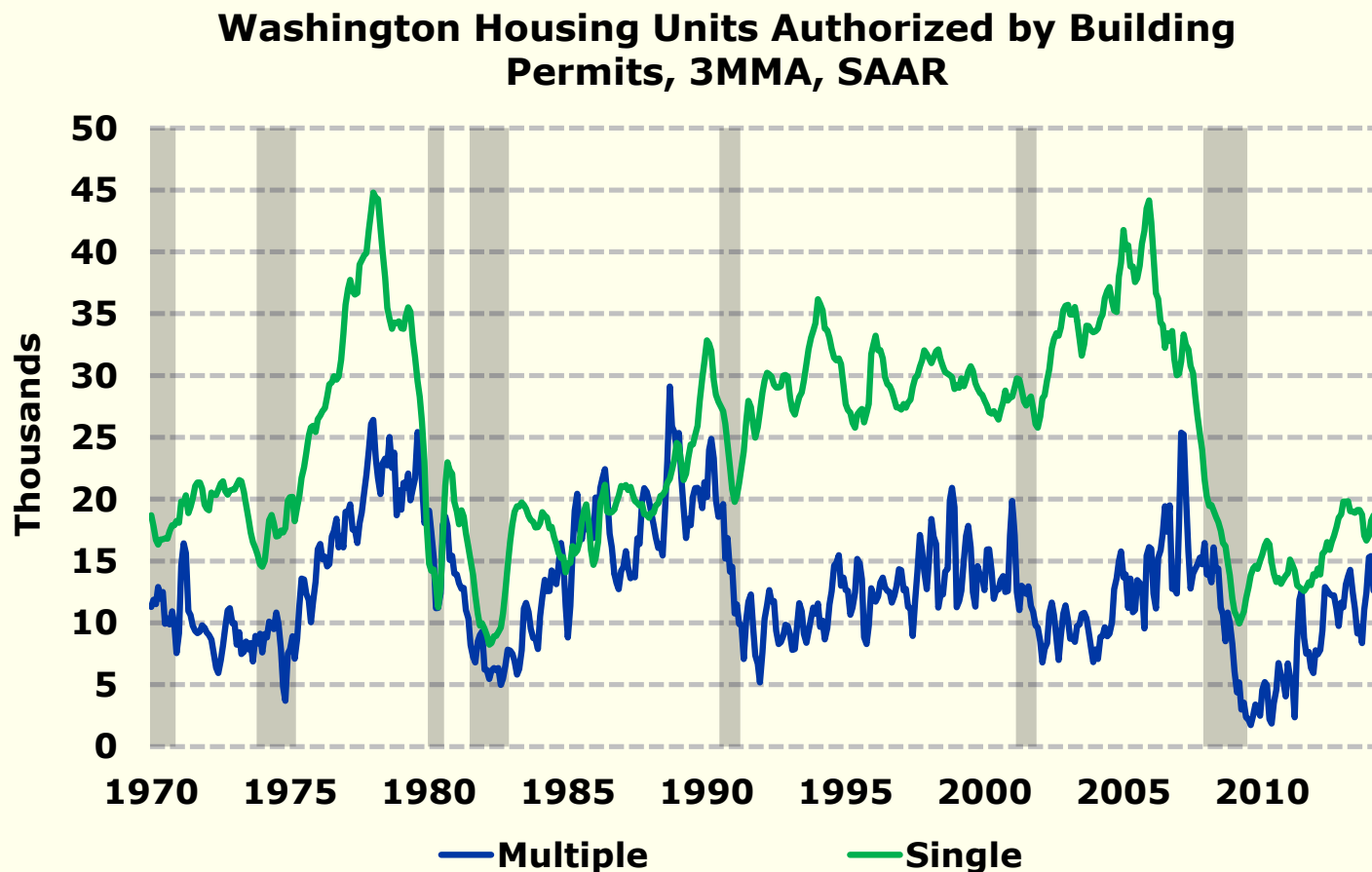


Source: WA State Employment Security Department, ERFC February 2014 forecast; historical data through 2013 Q4

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Multifamily building permits improving but single family permits have paused

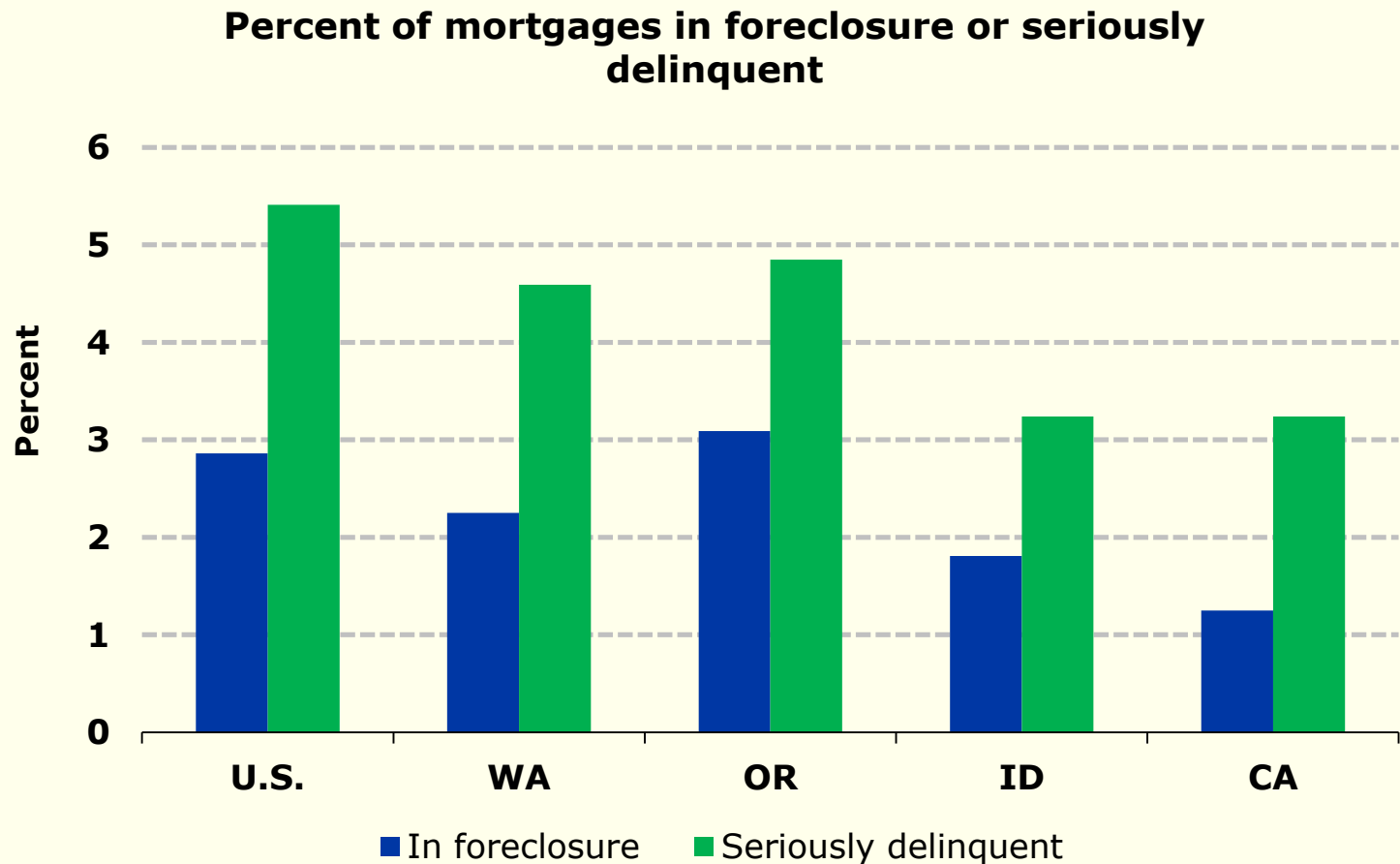


Source: U.S. Census Bureau; data through January 2014



Washington has a smaller share of mortgages in foreclosure or seriously delinquent than the U.S.

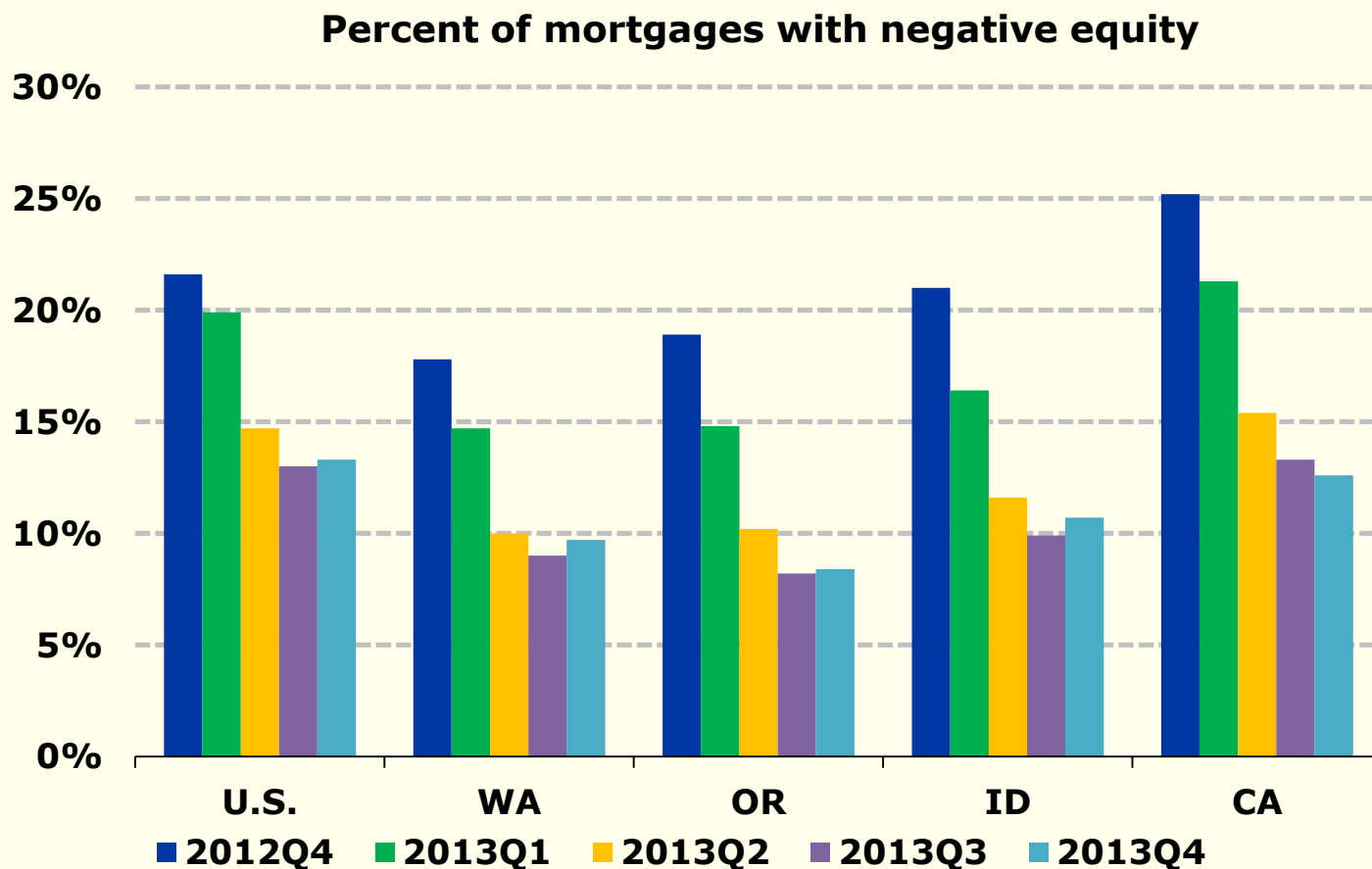
Seriously delinquent = 90 or more days past due



Source: Mortgage Bankers Association; data through 2013Q4



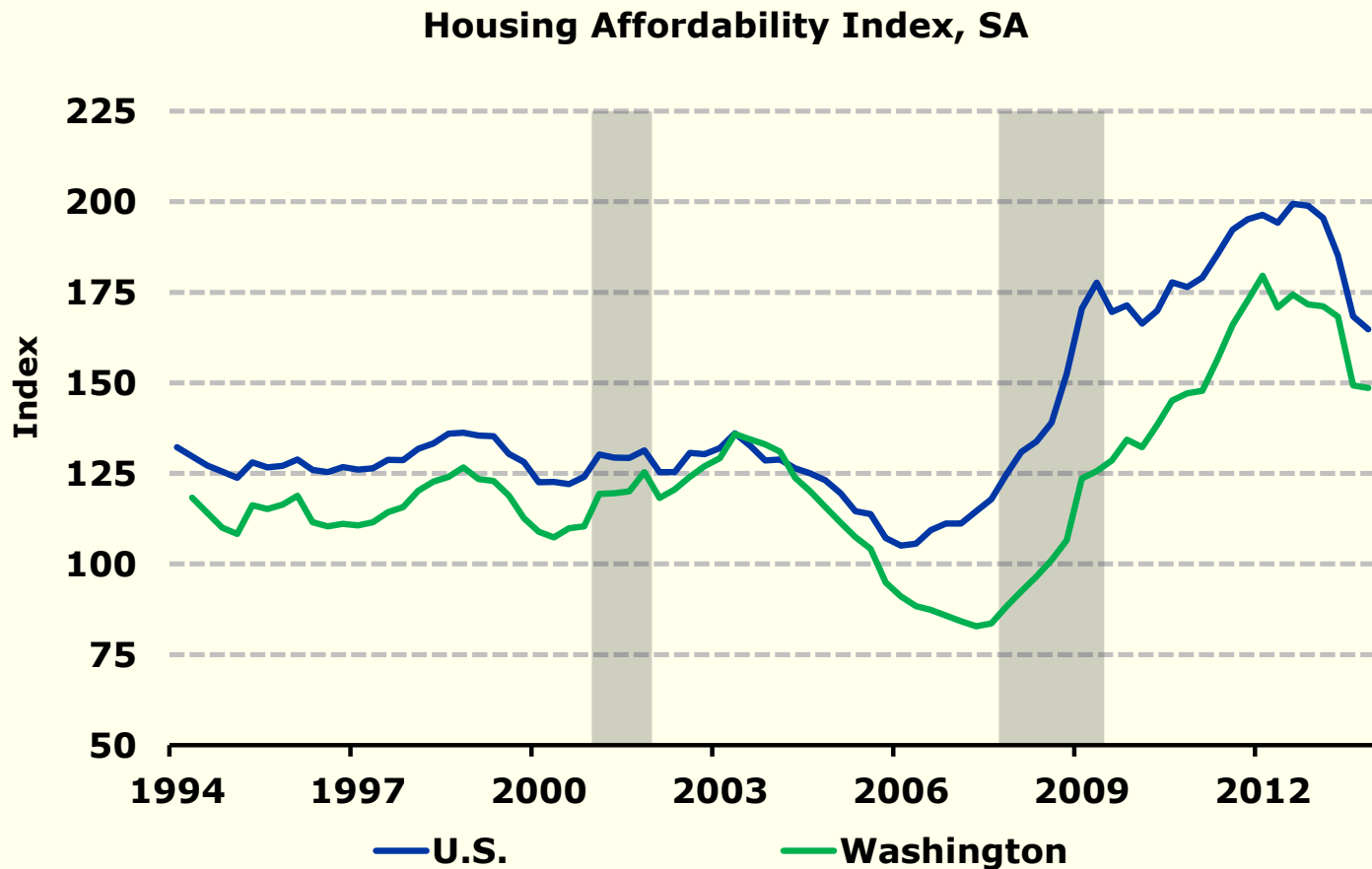
Rising home prices have reduced the number of underwater mortgages



Source: CoreLogic, ERFC, data through 2013Q4



Rising mortgage rates and home prices have reduced affordability



Source: Global Insight, WA Center Real Estate Research, ERFC; data through 2013Q4

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Residential REET growth slowed in Q4 but commercial sales still going strong

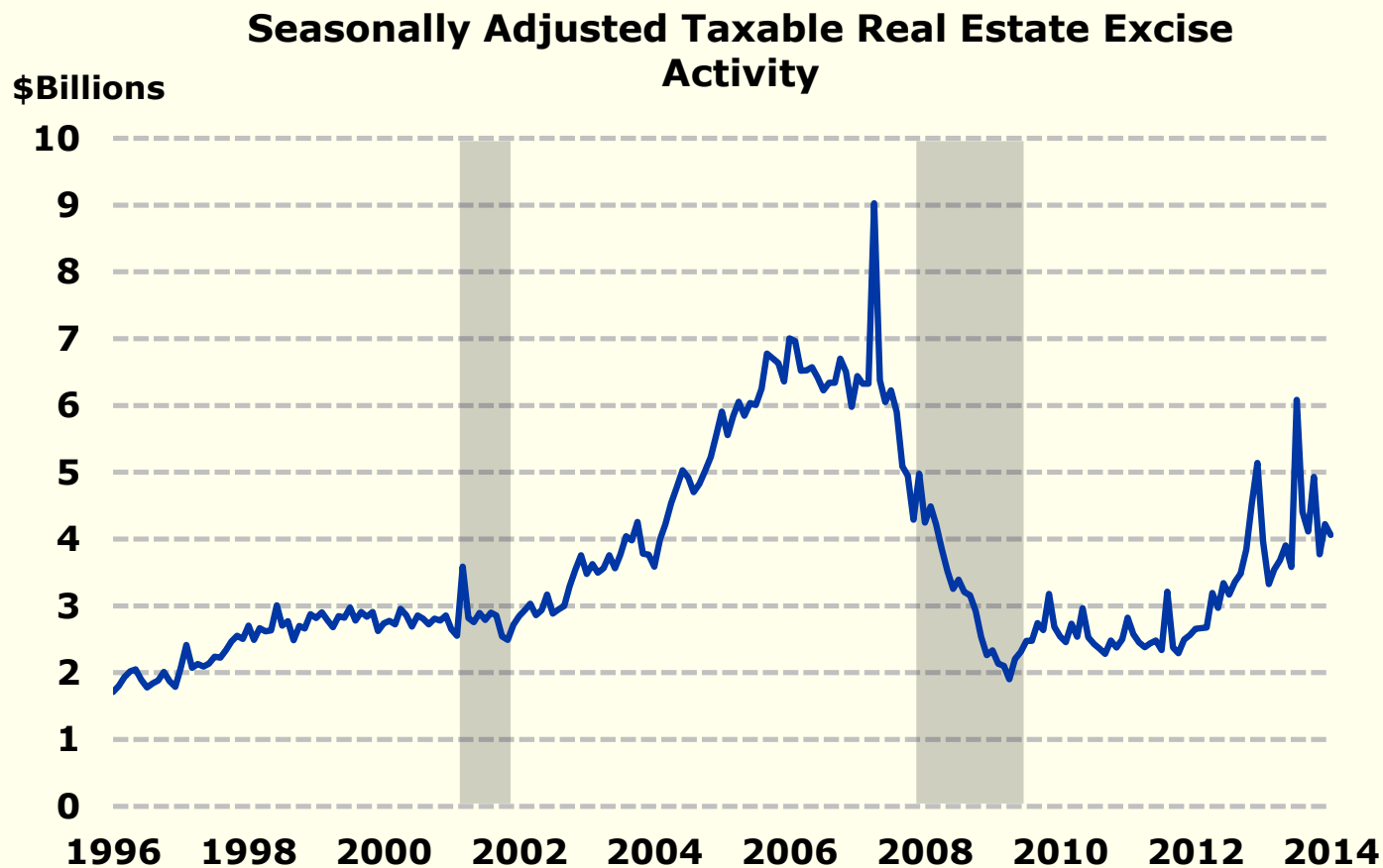
REET is currently being supported by large commercial sales

January sales of property worth \$10 million or more totaled \$675 million and December's sales totaled \$1 billion

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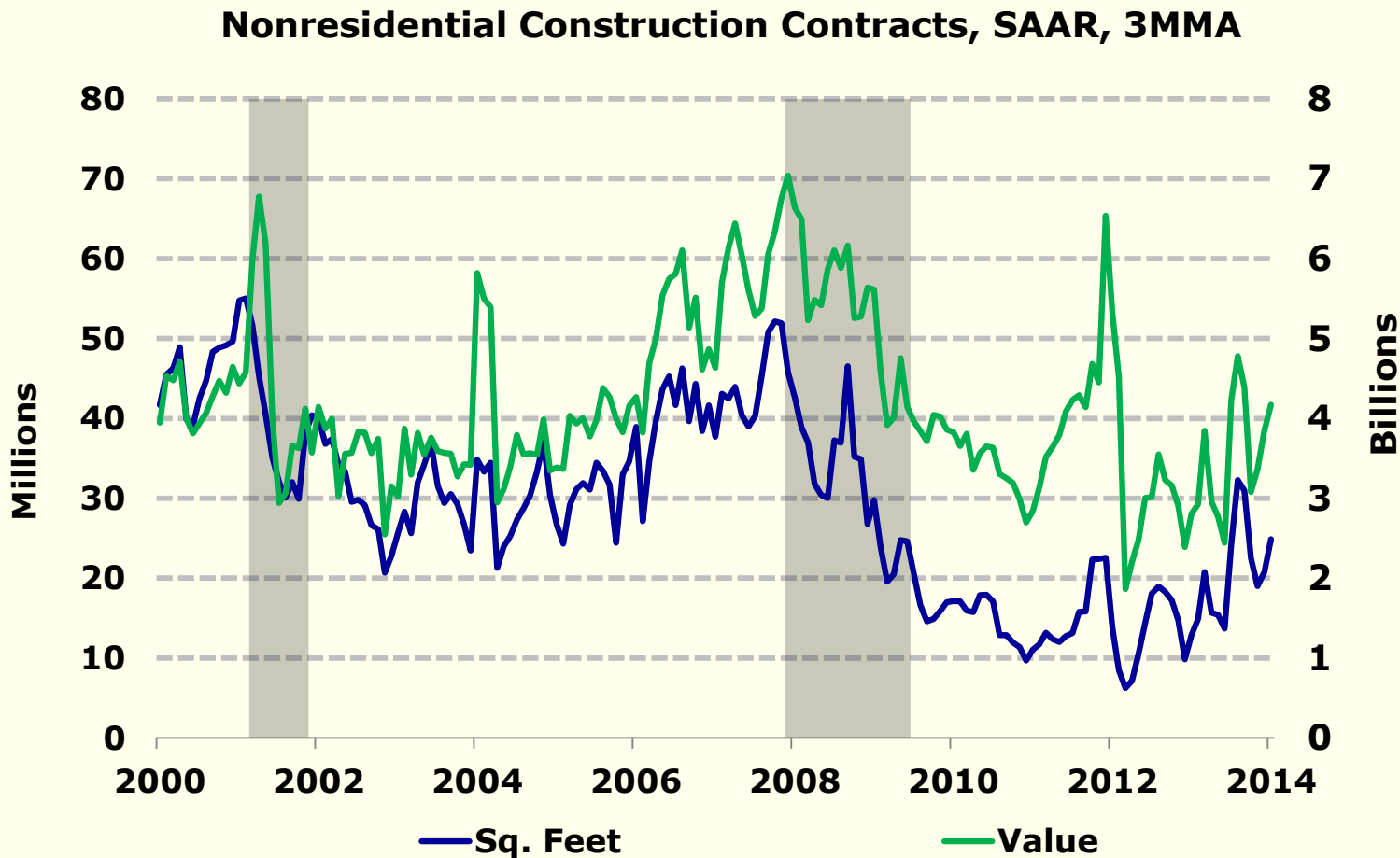
Source: ERFC; Monthly data through January 2014 preliminary

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State contract data indicates an increase in non-residential activity

Non-Residential square footage is up 93%, and value is up 49% year over year (3mma).



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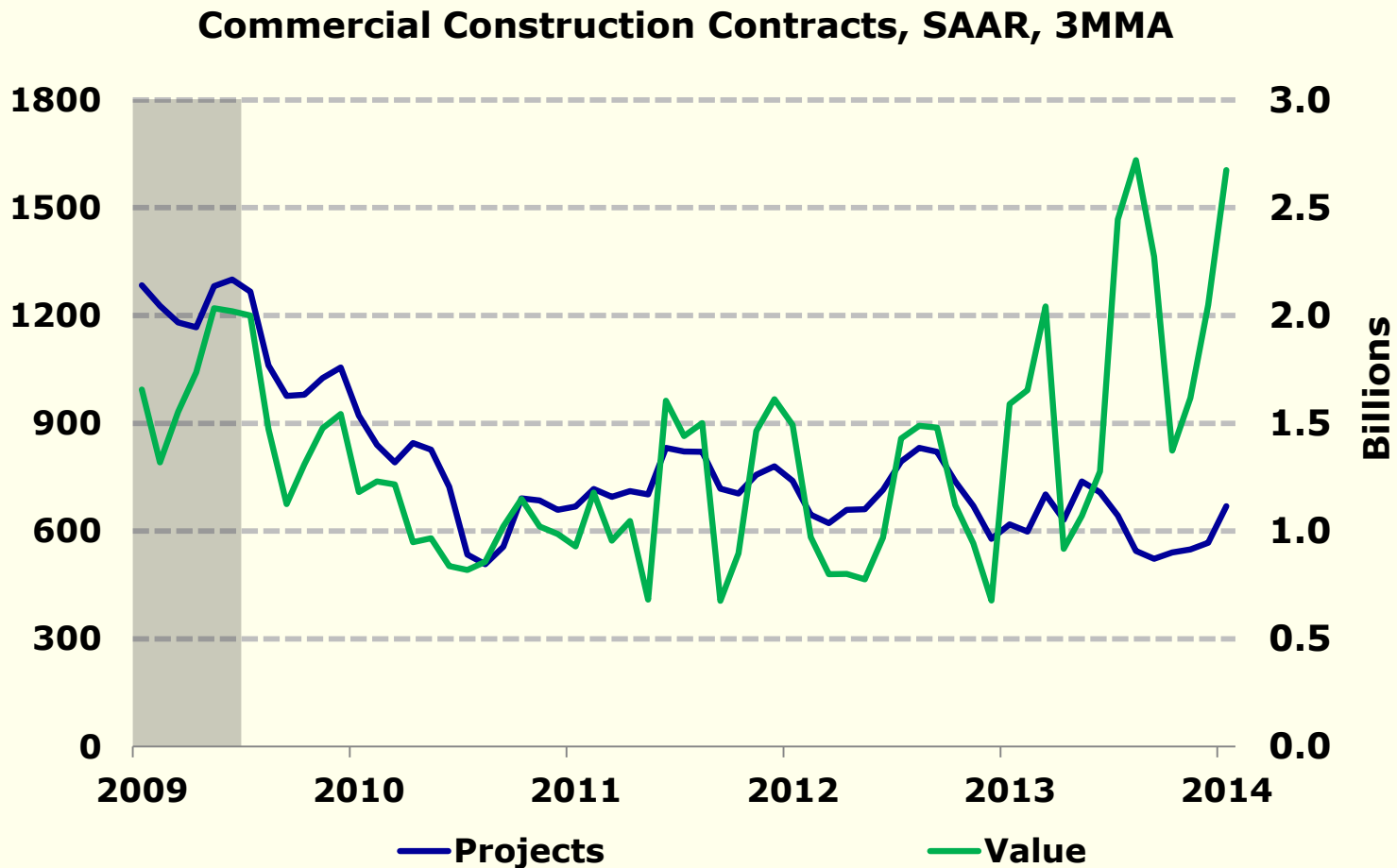
Source: Dodge, ERFC; data through January 2014

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Value of commercial real estate projects is on the rise

Commercial value is up 68%, while the number of projects is up just 8% year over year (3mma).



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Source: Dodge, ERFC; data through January 2014

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State Revenues



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Forecast changes: General Fund State, 2013-2015 Biennium

**November
Forecast:**

**\$32,982
million**

\$Millions	February Forecast				
	<u>Collection Experience</u>	<u>Non- economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	\$0	\$0	\$20	\$31,424	\$21
All other agencies	\$2	\$0	\$8	\$1,589	\$10
Total GF-S	\$2	\$0	\$29	\$33,013	\$30



Forecast changes: General Fund State, 2015-2017 Biennium

**November
Forecast:**

**\$35,615
million**

\$Millions

February Forecast

	<u>Non- economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	\$28	\$5	\$34,067	\$33
All other agencies	\$23	\$26	\$1,629	\$49
Total GF-S	\$51	\$31	\$35,697	\$82



Cannabis revenue estimates

Revenue estimates use assumptions based on research conducted by LCB contractor BOTEC Analysis

\$Millions

February Forecast

	<u>2013-15</u>	<u>2015-17</u>	<u>2017-19</u>
GF-S share of excise tax and license fees	\$0	\$22.9	\$63.0
Retail sales tax and B&O	\$0	\$28.3	\$75.4
Total GF-S	\$0	\$51.2	\$138.5
Dedicated Non GF-S excise tax and licenses fees	\$0	\$110.8	\$285.5

* Detail may not add to total due to rounding

Source: ERFC, BOTEC Analysis

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Conclusion

- Things are slow and steady
- We're seeing the consumer becoming more confident and resuming spending again helping business become more optimistic for the future
- Construction employment is slowly on an upward trend, although we are keeping a close eye on new permits and starts
- The shadow inventory of houses is reducing but there are some concerns about overall housing affordability
- Commercial projects are doing decently well compared to the residential market that is still lagging pre-recession rates



Questions



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